

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 ONY-00 SS-15 /028 W  
-----030846 021035Z /14-R  
P 020935Z DEC 77  
FM AMEMBASSY MANILA  
TO SECSTATE WASHDC PRIORITY 8695  
INFO AMEMBASSY SEOUL PRIORITY

C O N F I D E N T I A L SECTION 1 OF 3 MANILA 19045

USADB

FOR NAC AGENCIES

E.O. 11652: GDS  
TAGS: EAID, EFIN, SHUM, KS  
SUBJECT: ADB PROPOSED REGIONAL WATER SUPPLY PROJECT (KOREA)

REF: STATE 286263

SUMMARY: ADB MANAGEMENT PROPOSING \$30.0 MILLION EQUIVALENT  
LOAN FROM ORDINARY CAPITAL RESOURCES AND \$89,000 TECHNICAL  
ASSISTANCE (TA) GRANT TO FINANCE FOREX COST OF REGIONAL  
WATER SUPPLY PROJECT AND PREFEASIBILITY STUDY FOR SEWERAGE  
TREATMENT PROJECT IN KOREA. PROPOSED PROJECT INVOLVES  
CONSTRUCTION OF TWO BUL INDEPENDENT WATER SUPPLY SYSTEMS,  
NAMELY, GEUM RIVER WATER SUPPLY SYSTEM AND GUMI RIVER IN  
CENTRAL KOREA. THESE SYSTEMS WILL SUPPLY POTABLE TREATED  
WATER THROUGH PIPELINES TO VARIOUS CITIES, TOWNS, RURAL  
CENTERS AND INDUSTRIAL COMPLEXES. AT PRESENT ONLY 47 PERCENT  
OF TOTAL POPULATION OF TWO AREAS HAS PIPED WATER WHILE MOST  
SMALL MUNICIPALITIES HAVE NO PIPED WATER AT ALL. BY  
1991 IT IS EXPECTED THAT 1,340,000 PEOPLE REPRESENTING  
ABOUT 80 PERCENT OF POPULATION OF THESE TWO  
AREAS WILL HAVE PIPED WATER. BANK ESTIMATES THAT APPROX-  
IMATELY 60 PERCENT OF TOTAL WATER CONSUMED FROM THE TWO  
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SYSTEMS WILL BE FOR POORER RURAL AND URBAN POPULA-  
TIONS THAT PREVIOUSLY DIDNOT HAVE ACCESS TO POTABLE  
WATER. IN ADDITION, ANOTHER FIVE PERCENT OF WATER  
CONSUMPTION WILL BE FOR SMALL FIRMS. PROJECT ECONOMICALLY  
AND TECHNICALLY FEASIBLE. USADB RECOMMENDS  
FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R140-77 WITH ATTACHMENTS POUCHED DECEMBER 1.  
BOARD CONSIDERATION SCHEDULED DECEMBER 20.

2. PROPOSED PROJECT PART OF FOURTH FIVE-YEAR PLAN  
(1977-1981) WHOSE OBJECTIVES ARE: TO PROVIDE WATER SUPPLY  
SYSTEMS WITH A TOTAL CAPACITY OF 1,500,000 CU.M.  
PER DAY COVERING FOUR EXTENDED REGIONS (GEUM RIVER,  
GUMI, SUWEON, AND OSAN/SEOMJIN RIVER SYSTEMS) TO SUPPLY  
SMALL AND MEDIUM TOWNS; TO PROVIDE PIPED WATER SUPPLY IN  
20,427 VILLAGES OF MORE THAN 20 HOUSEHOLD, WHERE  
TECHNICALLY FEASIBLE; TO PROVIDE FACILITIES SO THAT IN  
THOSE AREAS THROUGHOUT KOREA WITH EXISTING SYSTEMS, THE  
AVERAGE CONSUMPTION PER CAPITA PER DAY CAN INCREASE  
FROM 216 LITERS IN 1975 TO 252 LITERS IN 1981; AND  
PERCENTAGE OF HOUSEHOLDS WITH PIPED WATER TO RISE FROM  
43 PERCENT TO 60 PERCENT. IN ADDITION, THERE WILL BE  
EXPANSION OF WATER SUPPLIES TO INDUSTRIAL COMPLEXES.

3. INCREASE WATER SUPPLY WOULD COVER PROJECT AREA NEEDS  
UP TO 1991. IN CASE OF GEUM RIVER SYSTEM,  
24 MUNICIPALITIES AND 3 INDUSTRIAL COMPLEXES WOULD BE  
SUPPLIED THROUGH TRANSMISSION PIPELINES OF A TOTAL LENGTH  
OF ABOUT 135 KM.; FOR THE GUMI SYSTEM 4 MUNICIPALITIES  
AND 2 INDUSTRIAL COMPLEXES WILL BE SUPPLIED THROUGH  
TRANSMISSION PIPELINES OF ABOUT 24 KM IN LENGTH.

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4. TOTAL COST OF PROJECT \$66.3 MILLION EQUIVALENT  
PROPOSED ADB LOAN \$30 MILLION EQUIVALENT FROM ORDINARY  
CAPITAL RESOURCES WOULD FINANCE FOREX COSTS OF: (I)  
WATER SUPPLY EQUIPMENT FOR GEUM RIVER SYSTEM (GRS)  
(\$5.38 MILLION) AND GUMI SYSTEM (GS) (\$1.65 MILLION);  
(II) PIPELINES FOR GRS (\$15.32 MILLION) AND GS (\$0.99  
MILLION); (III) CONSULTANTS SERVICES FOR GRS (\$0.44  
MILLION) AND GS (\$0.06 MILLION); (IV) PRICE ESCALATION  
FOR GRS (\$3.53 MILLION) AND GS (\$0.45 MILLION); (V)  
PHYSICAL CONTINGENCY FOR GRS (\$1.93 MILLION) AND GS  
(\$0.25 MILLION). BORROWER WILL BE REPUBLIC OF KO

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AND EXECUTING AGENCY WILL BE MINISTRY OF CONSTRUCTION  
(MOC).

5. OVERALL COORDINATION OF REGIONAL WATER SUPPLY  
PROJECT WOULD BE THE RESPONSIBILITY OF MOC. WATERWORKS

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AND SEWERAGE SECTION OF THE URBAN BUREAU OF PLANNING OF MOC  
WOULD BE IN CHARGE OF THE SUPERVISION OF THE IMPLEMENTATION  
OF THE PROJECT. SUPERVISION OF THE CONSTRUCTION WOULD BE  
CARRIED OUT BY SEPARATE PROJECT TASK FORCE UNITS WHICH MOC  
WOULD ESTABLISH IN NAM REGIONAL CONSTRUCTION BUREAU (GEUM  
RIVER SYSTEM) AND THE GYEONG BUG REGIONAL CONSTRUCTION BUREAU  
(GUMI SYSTEM). STAFFING ARRANGMENTS AND BUDGET ALLOCATIONS  
WOULD BE MADE BY THE CONTROLLER OF PLANNING AND MANAGEMENT  
WITHIN MOC WHO COORDINATES AND CONTROLS THE ACTIVITIES OF  
THE VARIOUS BUREAUS AND AUTONOMOUS CORPORATIONS WHICH HAVE  
BEEN SET UP UNDER THE SUPERVISION OF MOC.

6. WATER TARIFFS IN KOREA ARE REVIEWED AND APPROVED BY THE  
ECONOMIC PLANNING BOARD (EPB) THROUGH ITS PRICE CONTROL  
DIVISION, BEFORE THEY BECOME EFFECTIVE. IN PRESENT CALCULATION  
OF WATER TARIFFS BASED ON A STANDARD FORMULA DEVELOPE BY  
EPB, ONLY OPERATING AND MAINTENANCE COSTS AND AMORTIZATION  
OF LOANS (PRINCIPAL AND INTEREST) ARE TAKEN INTO ACCOUNT.  
HOWEVER, PRICE CONTROL DIVISION OF THE EPB AND OTHER INVOLVED  
AGENCIES HAVE INDICATED TO MISSION THAT NEXT YEAR THEY PLAN  
TO INCLUDE DEPRECIATION AND RETURN ON INVESTMENTS OF ABOUT  
7 PERCENT IN THE CALCULATION OF WATER TARIFFS. PRESENT WATER  
TARIFFS, ALTHOUGH INCREASING ALMOST ANNUALLY, HAVE REMAINED  
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LOW.

7. PROCUREMENT OF ALL ITEMS OF EQUIPMENT AND MATERIALS  
FINANCED BY THE BANK WILL BE IN ACCORDANCE WITH THE BANK'S

GUIDELINES FOR PROCUREMENT. ALL CONTRACTS FOR EQUIPMENT AND MATERIALS OF \$100,000 EQUIVALENT OR MORE WILL BE AWARDED ON THE BASIS OF INTERNATIONAL COMPETITIVE BIDDING. SUPPLY CONTRACTS BELOW \$100,000 EQUIVALENT WILL BE AWARDED ON THE BASIS OF BIDS OR QUOTATIONS OBTAINED FROM A REASONABLE NUMBER OF SUPPLIERS FROM MORE THAN ONE ELIGIBLE COUNTRY OF BANK. IT IS ANTICIPATED THAT ONLY A FEW SPECIALIZED ITEMS WILL BE PURCHASED UNDER SUCH INTERNATIONAL SHOPPING PROCEDURES. SPECIFICATIONS FOR THE WATER TREATMENT EQUIPMENT FOR THE GUMI SYSTEM WILL BE PREPARED TAKING INTO CONSIDERATION THE FACTORS THAT THE NEW PLANT WILL BE EXTENSION OF THE EXISTING PLANT AND THE NEW EQUIPMENT HAS TO BE COMPATIBLE WITH THE EXISTING PLANT.

8. PROPOSED \$89,000 TA GRANT WOULD HELP PREPARE SEWERAGE TREATMENT PROJECT. OF FIVE INDUSTRIAL AREAS PROPOSED FOR PROVISION OF SEWAGE TREATMENT; FOUR EXISTING INDUSTRIAL AREAS ARE BY FAR LARGEST OF 20 OR SO SPECIFIC INDUSTRIAL AREAS IN KOREA. SPECIFICALLY, GUMI INDUSTRIAL AREA HAS ALREADY BEEN IDENTIFIED AS A MAJOR POLLUTION SOURCE OF THE NAKDONG RIVER; BANWEOI IS TO BE A NEW INDUSTRIAL CITY ON WHICH CONSTRUCTION HAS JUST STARTED AND KOREA FEELS THAT OPPORTUNITY SHOULD NOT BE LOST OF PLANNING SEWAGE TREATMENT REQUIRED AS AN INTEGRAL PART OF THE NEW CITY; CHANGWON, ULSAN AND YEOCHON ARE LARGE SOUTH EASTERN COASTAL INDUSTRIAL COMPLEXES LOCATED ADJACENT TO LARGE URBAN AREAS WHERE THE CONTINUING DEVELOPMENT OF BOTH INDUSTRY AND URBAN AREAS WILL AGGRAVATE THE ALREADY SERIOUS POLLUTION IN AREA. OF PARTICULAR CONCERN IS THAT THE MAJORITY OF

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SHELLFISH AND FISH CONSUMED IN KOREA IS FROM THIS AREA AND POLLUTION IS ALREADY AFFECTING THE CATCH.

9. FOUR EXPERTS WOULD BE RECRUITED FROM A FIRM OF ENGINEERING CONSULTANTS WITH WORLDWIDE EXPERIENCE IN SEWAGE TREATMENT. THEIR SERVICES WOULD BE REQUIRED FOR A TOTAL OF NINE AND ONE-HALF MAN-MONTHS TO CARRY OUT THE PREFEASIBILITY STUDY AND COMPRISE: (I) AN ENGINEER WITH CONSIDERABLE EXPERIENCE IN THE PREPARATION OF FEASIBILITY STUDIES FOR SEWAGE TREATMENT IN COASTAL CITIES, FOR EIGHT WEEKS IN THE FIELD, ONE WEEK IN MANILA, AND ONE WEEK IN THE CONSULTANT'S HOME OFFICE; (II) AN ENGINEER WITH GENERAL EXPERIENCE IN THE DESIGN OF SEWAGE PIPELINE SEA OUTFALLS, FOR EIGHT WEEKS IN THE FIELD, ONE WEEK IN MANILA, AND ONE WEEK IN THE CONSULTANT'S HOME OFFICE; (III) A CHEMIST WHO IS AN EXPERT IN TREATMENT OF INDUSTRIAL SEWAGE AND SEWAGE EFFLUENT STANDARDS, FOR EIGHT WEEKS IN FIELD, ONE WEEK IN MANILA AND ONE WEEK IN THE CONSULTANT'S HOME OFFICE; AND

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(IV) AN OCEANOGRAPHER WITH EXPERIENCE IN FEASIBILITY OF PIPELINE SEA OUTFALLS AND THE EFFECT OF SEA OUTFALLS ON MARINE ENVIRONMENT FOR FIVE WEEKS IN FIELD. THE TEAM LEADER WOULD BE ONE OF THE FOUR EXPERTS AND WOULD BE REQUIRED FOR AN ADDITIONAL TWO WEEKS AT START IN FIELD, ONE WEEK IN MANILA, AND THREE WEEKS IN HOME OFFICE.

10. IN ALMOST ALL OF THE SMALLER TOWNS AND RURAL CENTERS TO BE SUPPLIED, THE PROVISION OF THE PROJECT BULK SUPPLY OF WATER AT THE BOUNDARY OF THE TOWN OR RURAL CENTER WILL ALLOW THE DEVELOPMENT OF A PIPED WATER SYSTEM FOR THE FIRST TIME. PEOPLE WHO AT PRESENT OBTAIN THEIR WATER FROM WELLS, BORE HOLES AND NEARBY WATER COURSES WILL BE PROVIDED WITH A PIPED WATER SUPPLY WITH ALL OF ITS INHERENT ADVANTAGES SUCH AS AN IMPROVEMENT IN CLEANLINESS AND LESS TIME INVOLVED IN THE CARRYING AND FETCHING OF WATER.

11. THE PROPOSED PROJECT WOULD HELP IMPROVE PUBLIC HEALTH BY PROVIDING SAFE POTABLE WATER SUPPLY. THE BENEFIT FROM THIS, ALTHOUGH DIFFICULT TO QUANTIFY, WOULD INCREASE LABOR PRODUCTIVITY THROUGH THE LESSENING  
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OF DEBILITY FROM PARASITIC INFECTIONS (OF WHICH OVER 60 PERCENT OF RURAL POPULATION SUFFER) AND WOULD REDUCE THE COSTS OF MEDICAL TREATMENT OF THE HIGH PERCENTAGE OF THE POPULATION WHO ARE PRESENTLY SUBJECT TO INFECTION.

12. THE PROJECT, IN PROVIDING WATER TO THE VARIOUS INDUSTRIAL COMPLEXES, WILL HELP BROADEN THE ECONOMIC BASE OF BOTH AREAS, AND WILL ALSO HELP INDUSTRIES TO PROVIDE ADDITIONAL EMPLOYMENT IN THOSE AREAS.

13. THE PERCENTAGE OF THE POPULATION SERVED WITH A PIPED WATER SUPPLY WILL INCREASE APPRECIABLY BY 1991 FROM 49 TO 81 PERCENT FOR THE GEUM RIVER SYSTEM AND FROM 36 TO 75 PERCENT FOR THE GUMI SYSTEM. AN IMPORTANT CRITERIA FOR AREAS WITHIN MUNICIPALITIES TO RECEIVE A SUPPLY WILL BE THE DENSITY OF HOUSING AND THE POPULATION IN SUCH AREAS IS GENERALLY FROM LOWER INCOME GROUPS. IN ADDITION THE PROJECT WILL BENEFIT A NUMBER OF RURAL CENTERS WHOSE POPULATION IS ALMOST EXCLUSIVELY FROM THE LOWER INCOME GROUPS.

14. COMMENT: USADB BELIEVES PROJECT MEETS BHN CRITERIA I AND K OUTLINED IN REFTEL. ON OTHER ISSUES WE FEEL THAT GIVEN PRESENT ACCOUNTING SYSTEM BANK'S RECOMMENDATION THAT GOVT ESTABLISH SOUND ACCOUNTING PRACTICES IS PARTICULARLY WELL TAKEN. PROJECT CONSIDERED TECHNICALLY AND ECONOMICALLY FEASIBLE. USADB RECOMMENDS FAVORABLE NAC ACTION.

15. REQUEST AMEMBASSY SEOUL COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.  
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## Message Attributes

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